

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION
ID#4114
RESOLUTION E-3906
December 16, 2004

R E S O L U T I O N

Resolution E-3906. Pacific Gas and Electric Company (PG&E) submits electric tariff revisions to recover balances in balancing accounts, establish the regulatory asset revenue requirement, and consolidate changes to electric rates effective January 1, 2005. Approved with modifications.

By Advice Letter (AL) 2570-E filed on October 15, 2004.

SUMMARY

PG&E's proposal to revise electric rates effective January 1, 2005 to recover balancing account balances, establish the 2005 regulatory asset revenue requirement, and consolidate authorized rate changes is approved with the following modifications:

- Balances in balancing accounts authorized for recovery in rates shall be subject to future audit, verification, and adjustment as necessary.
- PG&E shall file an application for future true-up of electric balancing accounts.
- PG&E shall remove tariff changes proposed in AL 2570-E to Preliminary Statement part DE addressing the head room account, and file these changes as a supplement to currently pending AL 2555-G/2521-E.
- PG&E's proposal to increase generation rates for residential usage above 130% of baseline to collect the shortfall resulting from the requirements of Section 80110 of the Water Code is denied without prejudice. Instead, PG&E shall track the shortfall in an account for future recovery after the Commission has determined the proper allocation of the shortfall in phase 2 of PG&E's test year 2003 general rate case (TY 2003 GRC), Application (A.) 04-06-024.

The 2005 revenue requirement increase estimated in AL 2570-E is \$315 million; of this amount \$221 million is related to rate changes authorized by the Federal Energy Regulatory Commission (FERC).

PG&E estimates that the rates will increase by about \$315 million in 2005 resulting from changes authorized by the California Public Utilities Commission (Commission or CPUC) and FERC. The FERC-authorized changes result in an increase of about \$221 million.

PG&E shall revise the estimate to reflect actual changes authorized by the Commission and FERC prior to the end of 2004.

PG&E will supplement AL 2570-E before the end of 2004 to reflect the actual rate changes authorized by the Commission in various proceedings and advice letters, and the changes actually authorized by the FERC. The supplement to AL 2570-E will also incorporate updated balances to accounts to be amortized in rates on January 1, 2005.

The rate changes which are authorized by FERC and subject to refund are just and reasonable.

BACKGROUND

Decision (D.) 03-12-035 approved the modified settlement agreement (MSA); the MSA established the regulatory asset and changed PG&E's rate structure as PG&E emerged from bankruptcy.

D.03-12-035 approved the MSA between the Commission and PG&E regarding PG&E's emergence from bankruptcy. Among other things, the MSA set up the regulatory asset of \$2.21 billion as a separate part of PG&E's rate base to be amortized in rates over nine years. The MSA also specified that PG&E file an advice letter to implement all rate and tariff changes necessary to implement the settlement plan.

Resolution E-3862 addressing the advice letter filed by PG&E pursuant to the MSA approved new regulatory accounts.

Resolution E-3862 dated April 1, 2004 addressed PG&E's AL 2510-G/2460-E filed pursuant to the MSA. Resolution E-3862 approved several new regulatory accounts. Among these accounts are:

- Regulatory asset revenue adjustment mechanism (RARAM), which ensures recovery of the regulatory asset revenue requirement through two separate sub accounts;
- Four revenue adjustment mechanisms to ensure that PG&E recovers its authorized revenue requirements for distribution (DRAM), public purpose programs (PPPRAM), nuclear decommissioning (NDAM), and utility retained generation (UGBA);
- Power charge collection balancing account (PCCBA), which tracks the difference between revenues that PG&E remits to the Department of Water Resources (DWR) according to the PG&E/DWR servicing agreement, and the revenue that PG&E collects from customers from the rate established by the Commission in the DWR power charge proceeding;
- Rate reduction bond memorandum account (RRBMA), which records the difference between the rate reduction bond savings and the 10% rate reduction provided to residential and small commercial customers authorized by Assembly Bill (AB) 1890 (1996);
- Electric reimbursable fees balancing account which allows recovery of the electric portion of amounts reimbursed by PG&E to the Commission for professional fees related to the bankruptcy case.

PG&E proposes in AL 2570-E to establish the 2005 regulatory asset revenue requirement, amortize the balances in various balancing accounts, and consolidate Commission and FERC-authorized rate changes on January 1, 2005.

In AL 2570-E PG&E proposes to establish new rates effective January 1, 2005. These new rates would reflect the 2005 regulatory asset revenue requirement, amortization of balances in the accounts described above, plus the balances in the hazardous substance mechanism (HSM) and the streamlining residual account (SRA).

These rates would also incorporate all rate changes authorized in Commission proceedings and approved in advice letters prior to January 1, 2005. These include rate changes that may be authorized before the end of 2004 in PG&E's cost of capital application (A.) 04-05-023, energy resource recovery account (ERRA) A.04-06-003, low-income and CARE-related A.04-07-013, and electric

restructuring costs A.00-07-013. PG&E would also incorporate the effect of the DWR bond and power charge allocation for 2005 if the Commission issues a decision on these matters before the end of 2004.

If certain advice letters are approved prior to the end of 2004, PG&E would incorporate their effects in January 1, 2005 rates. These ALs address: 2005 attrition, the head room account, the fixed transition account true-up, the self-generation program memorandum account, the advanced metering and demand response memorandum account, the system safety and reliability enhancement fund balancing account, and the electric vehicle balancing account.

PG&E also proposes that the rate changes to be consolidated on January 1, 2005 reflect rate changes for reliability services costs, the transmission access charge, transmission revenue adjustments, and end use customer refunds for which PG&E anticipates receiving approval from FERC prior to January 1, 2005.

PG&E estimates in AL 2570-E a consolidated revenue requirement increase for 2005 of \$315 million; of this amount, \$221 million is related to FERC-authorized costs and \$94 million is related to Commission-authorized costs.

In AL 2570-E PG&E provided illustrative rates based on balancing account balances as of August 31, 2004 and revenue requirement requests filed in the applications and advice letters noted above. The total annual revenue requirement increase for 2005 reflecting these illustrative rates is approximately \$315 million. A breakdown of the components of the annual revenue requirement increase estimated in AL 2570-E is as follows:

- Estimated FERC-Authorized 2005 Increase: \$221 million.
 - Reliability Services: \$175 million;
 - Transmission Revenue Adjustment: \$27 million;
 - Transmission Access Charge: \$19 million.
- Estimated CPUC-Authorized 2005 Increase: \$94 million.
 - ERRA A.04-06-003: \$99 million;
 - DWR Bond and Power Charges (excluding PCCBA): \$90 million;
 - Electric Restructuring Cost A.00-07-013: \$80 million;
 - 2005 Attrition: \$74 million;

- Regulatory Asset including RARAM Amortization: \$27 million;
- Public Purpose and CARE-related (excluding PPPRAM): \$21 million;
- Other Pending ALs: \$30 million.
- Balancing Account Amortization (excluding RARAM): -\$327 million; the PCCBA and the UGBA are each over-collected by more than \$150 million.

PG&E proposes to supplement AL 2570-E prior to January 1, 2005 to incorporate updated balancing account balances and the revenue requirement changes actually approved by the Commission and FERC.

PG&E proposes to supplement the AL prior to the end of 2004 to incorporate balancing account balances recorded as of November 30, 2004, and the revenue requirement changes actually authorized by the Commission and FERC by the end of the year. The supplemental AL would include the new rates and revised tariffs to become effective on January 1, 2005.

NOTICE

Notice of AL 2570-E was made by publication in the Commission's Daily Calendar. PG&E states that the AL was mailed and distributed in accordance with Section III-G of General Order 96-A, and served on parties to A.02-11-017, A.04-07-032, A.04-05-023, I.02-04-026, A.00-11-038, R.98-07-037, A.04-06-003, A.00-07-013, A.99-03-039, A.02-03-020, and A.02-06-019.

PROTESTS

PG&E's AL 2570-E was not protested.

DISCUSSION

It is reasonable to consolidate Commission and FERC-approved rate changes; FERC-authorized rates, which are subject to refund, are just and reasonable.

PG&E's proposal to consolidate all Commission and FERC-approved rate changes makes administrative sense and should be approved. Under the filed rate doctrine, the Commission is generally obligated to pass through FERC-authorized rates to PG&E's customers. It is just and reasonable for PG&E to implement all rate changes referenced in AL 2570-E that are subject to approval

by FERC when FERC makes those new rates effective subject to refund to the same extent as at the FERC.

PG&E may consolidate new rates effective on January 1, 2005; those rates are subject to Commission staff review for compliance with relevant Commission and FERC authorization.

We grant PG&E's proposal to supplement AL 2570-E to provide tariffs and new rates reflecting all Commission and FERC-authorized rate changes approved prior to January 1, 2005. These new rates shall incorporate the rate design changes that we require in this resolution. PG&E shall provide information to Energy Division in the supplemental advice letter showing all the changes made in the supplement and the reasons for those changes.

Staff notes that there will be a short time period between the dates when PG&E submits the supplemental advice letter and the requested January 1, 2005 effective date. PG&E has informed Energy Division that it may not be able to file the supplement until December 30. We authorize PG&E to make the rates filed in the supplemental advice letter effective on January 1, 2005. The rates filed in the supplement will be reviewed by Energy Division for compliance after January 1 2005.

Energy Division will not have completed its review of the supplemental advice letter by the January 1, 2005 effective date. It is possible that after the effective date Energy Division or a party reviewing the supplement may discover compliance issues that require modification of rates filed in the supplement. In that event, PG&E shall modify the rates as required and re bill customers as necessary in a timely manner.

PG&E may begin to amortize in rates effective January 1, 2005, the balances in balancing accounts addressed in AL 2570-E; the account balances are subject to future audit, verification, and adjustment if necessary.

We grant PG&E's request to amortize in rates effective January 1, 2005 the balances in the accounts addressed in AL 2570-E recorded as of November 30, 2004. We note that these balances have not been reviewed or audited. Thus, the balances that we authorize PG&E to begin collecting in rates are subject to audit, verification, and adjustment if necessary after January 1, 2005.

PG&E shall file an application to request future recovery of balancing account balances.

We authorize PG&E to reflect in rates the balances in the accounts it requests in AL 2570-E to amortize. The effect of including these balances in new rates is to reduce what would otherwise be a much larger rate increase. The net balance in the aggregate of all the accounts as shown in AL 2570-E for balances recorded as of August 31, 2004 is approximately a \$327 million over-collection. We expect that the balances recorded as of November 30, 2004 will also result in a net over-collection, so amortizing these balances in rates will mitigate the rate increase resulting from Commission and FERC decisions issued before the end of 2004.

PG&E's tariffs indicate that the disposition of the balances in most of these accounts shall be done in the context of a Commission proceeding, not through the advice letter process. For example, PG&E's tariffs state that the disposition of the distribution, public purpose program, nuclear decommissioning, and utility retained generation revenue adjustment mechanisms, the PCCBA, and the ERFBA shall be determined in the annual electric true-up proceeding. PG&E's tariffs state that it may seek recovery of balances recorded in the HSM as part of an application.

PG&E suggests in AL 2570-E that the advice letter process be the vehicle to annually true-up account balances. We allow the AL process in this case because as noted above the effect of amortizing the over-collections in various accounts mitigates a significant rate increase resulting from FERC and CPUC proceedings.

Since it is necessary to allow parties to review account balances in a formal proceeding we do not authorize PG&E to true-up its accounts on an ongoing basis via the advice letter process. We require that PG&E's next proposal for recovery of balances in the accounts addressed in AL 2570-E be done by application not through an advice letter. At that time, the balances that we authorize be recovered today may be reviewed, verified, and adjusted if necessary.

PG&E shall update its 2005 regulatory asset revenue base revenue requirement estimate of \$493 million based on the return on equity authorized by the Commission in A.04-05-023.

The regulatory asset revenue requirement consists of the base revenue requirement and amortization of the RARAM. The base revenue requirement for 2005, which PG&E estimates to be \$493 million is determined by amortizing the beginning 2005 principal amount over the remaining eight years of the regulatory asset. This calculation depends on PG&E's authorized return on equity.

PG&E shall update the calculation of the 2005 base revenue requirement to reflect the return on equity adopted in its cost of capital A.04-05-023. We expect that a decision in that proceeding will be issued prior to the end of 2004. Thus, the base revenue requirement included in PG&E's supplement to AL 2570-E should reflect the updated calculation.

The 2005 regulatory asset base revenue requirement shall be subject to future review of electricity supplier credits.

Credits resulting from settlements at FERC with entities that supplied electricity during the energy crisis to PG&E are subtracted from the principal amount that is used to determine the regulatory asset base revenue requirement. PG&E states in AL 2570-E that attorney fees specifically provided for in these settlements are not applied to reduce the regulatory asset principal amount.

In response to a data request, PG&E informed Energy Division that PG&E intends to include in tariffs filed in compliance with the Commission's decision in A.04-07-032 on energy recovery bonds (ERB), a mechanism to recover attorney fees associated with the settlements. PG&E expects to file these tariffs after it refinances its regulatory asset through the issuance of ERBs in early 2005. The 2005 regulatory base revenue requirement that PG&E files in its supplement to AL 2570-E and included in rates effective on January 1, 2005 shall be subject to adjustment as necessary based on our review of the tariffs that PG&E files in compliance with our decision in A.04-07-032.

PG&E shall remove from AL 2570-E proposed tariff changes to its head room account; PG&E shall submit these tariff changes as a supplement to a separate pending AL addressing the HA.

In AL 2570-E PG&E states that it will incorporate the effects of amortizing the balance in the head room account (HA) if AL 2555-G/2521-E, which addresses that account, is approved prior to the end of 2004.

D.03-12-035 required that retention bonuses for PG&E managers and employees not be included for purposes of calculating 2003 head room. In compliance with D.04-05-055 in its test year 2003 general rate case (TY 2003 GRC) A.02-11-017, PG&E filed AL 2555-G/2521-E in June 2004. D.04-05-055 required that PG&E show in this AL that \$84.5 million in awards made for its senior executive retention program (SrERP) are not being charged to ratepayers, and required that Energy Division conduct an audit of the accounting of these awards. PG&E included in AL 2555-G/2521-E an accounting of the SrERP awards and an accounting of 2003 headroom revenues. PG&E requested in that AL to use the HA to implement three refunds occurring in 2004 which total \$64.1 million; two of these relate to prior FERC transmission owner rates cases, and the third involves post-retirement benefits other than pensions authorized in Resolution G-3362 dated March 2004.

PG&E included in AL 2570-E revisions to the HA tariff which add language allowing PG&E to include the three 2004 refunds in the HA. These tariff revisions are more appropriately addressed in AL 2555-G/2521-E, since that is the AL in which PG&E requests that these refunds be included in the HA. We deny without prejudice these tariff revisions subject to Energy Division's review of AL 2555-G/2521-E. Review of AL 2555-G/2521-E will be completed after the end of 2004.

In its supplement to AL 2570-E required by this resolution, PG&E shall remove the tariff changes it proposed to the preliminary statement addressing the HA. PG&E shall instead submit these tariff changes as a supplement to AL 2555-G/2521-E. The supplement to AL 2555-G/2521-E shall not be subject to protests since these proposed tariff changes were not protested in AL 2570-E by any party. PG&E's proposal in AL 2555-G/2521-E to include the three 2004 refunds in the HA also was not protested.

PG&E's proposal to increase generation rates for residential usage above 130% of baseline to collect the shortfall resulting from the requirements of Section 80110 of the Water Code (AB 1X) is denied without prejudice.

AB 1X, signed into law in 2001, added Section 80110 to the Water Code. Among other things AB 1X restricts residential rates for usage up to 130 percent of baseline to those levels in effect on February 1, 2001.

In AL 2570-E PG&E proposes to comply with AB 1X by adjusting the generation component of rates for residential usage up to 130% of baseline such that the total rate for such usage is not increased. PG&E proposes to allocate the shortfall resulting from adjusting those rates, to the upper tiers of residential generation rates, i.e., rates for usage above 130% of baseline. We refer to this shortfall as the "AB 1X shortfall".

PG&E's proposal to allocate the AB 1X shortfall to the upper tiers of residential generation rates is denied without prejudice. The allocation of the AB 1X shortfall shall be subject to the Commission's determination in phase 2 of PG&E's TY 2003 GRC, A.04-06-024.

PG&E shall establish an account to track the shortfall resulting from AB 1X.

Until the Commission determines proper allocation of the AB 1X shortfall, PG&E shall track the associated revenues in a regulatory account. If PG&E chooses to track these amounts in an existing account, it shall use a separate sub-account. Within 14 days of today's date PG&E shall file an advice letter designating an account in which it shall track the AB 1X shortfall. We note that Resolution E-3897 adopted on November 19, 2004 approved the same treatment for the AB 1X shortfall related to an increase in SCE's FERC authorized reliability services revenue requirement.

COMMENTS

Public Utilities Code (PU) section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. PU Code section 311(g)(2) allows for a reduction in the comment period upon stipulation of all parties. All parties have stipulated to a reduced comment period. Accordingly, the draft resolution was mailed to parties for comment under a shortened comment period pursuant to PU Code section 311(g)(2). Comments were filed by ____ on ____.

FINDINGS

1. PG&E filed AL 2570-E on October 15, 2004 proposing to recover balances in accounts, establish the 2005 regulatory asset charge, and consolidate Commission and FERC authorized rate changes on January 1, 2005.

2. No party protested AL 2570-E.
3. According to the filed rate doctrine the Commission is obligated to allow PG&E to recover FERC-authorized costs for reliability services, transmission access, transmission revenue adjustments, and end use customer refunds.
4. It is just and reasonable for PG&E to begin recovering in rates, FERC-authorized revenues addressed in AL 2570-E, on the date that FERC makes rates effective to recover those revenues.
5. It is reasonable for PG&E to consolidate in rates effective January 1, 2005, amortization of balances recorded as of November 30, 2004 in the RARAM, DRAM, PPPRAM, NDAM, UGBA, PCCBA, RRBMA, HSM and the SRA, and all revenue requirement changes approved by the Commission and FERC by the end of 2004.
6. PG&E should supplement AL 2570-E before the end of 2004 to reflect the revenue requirement changes actually authorized by the Commission and FERC, and to update balances in accounts to be amortized on January 1, 2005. These rates should be subject to future adjustment pending review of the supplement to AL 2570-E by Energy Division.
7. The balances in the RARAM, DRAM, PPPRAM, NDAM, UGBA, PCCBA, RRBMA, HSM and the SRA to be amortized beginning January 1, 2005 should be subject to future review, verification, and adjustment if necessary by the Commission. PG&E should seek future recovery of balances in these accounts by application.
8. PG&E should update its estimate of the 2005 regulatory asset base revenue requirement filed in AL 2570-E using the return on equity adopted by the Commission in A.04-05-023.
9. The 2005 regulatory asset base revenue requirement should be subject to adjustment pending future review of electricity supplier credits.
10. PG&E should file as a supplement to AL 2555-G/2521-E, the tariff changes to Preliminary Statement part DE. as proposed in AL 2570.

11. PG&E should establish an account or a separate sub-account of an existing account to track the AB 1X shortfall for future recovery after the Commission has decided the appropriate allocation of the shortfall.

THEREFORE IT IS ORDERED THAT:

1. The request of PG&E in AL 2570-E is approved with modifications.
2. The rates authorized by this resolution shall be subject to refund to the same extent that they are subject to refund at the FERC.
3. No later than December 30, 2004 PG&E shall file a supplement to AL 2570-E with revised tariffs effective January 1, 2005. The supplemental filing shall be effective on January 1, 2005 subject to Energy Division determination that it is in compliance with this resolution. The supplement shall do the following:
 - a. Amortize over one year in rates the balances recorded as of November 30, 2004 in the RARAM, DRAM, PPPRAM, NDAM, UGBA, PCCBA, RRBMA, HSM, and the SRA; the account balances to be amortized are subject to future review, and adjustment if necessary by the Commission;
 - b. Reflect in rates the 2005 regulatory asset revenue requirement using the most recent Commission adopted rate of return;
 - c. Reflect in rates all Commission and FERC-authorized revenue requirement changes approved before the end of 2004;
 - d. Remove the changes proposed in AL 2570-E to Preliminary Statement part DE., addressing the head room account;
 - e. Remove all increases to residential rates for usage above 130% of baseline proposed in AL 2570-E that were intended to recover the shortfall resulting from the restriction in Water Code Section 80110 on increasing total rates for residential usage below 130% of baseline.
4. No later than 14 days from today PG&E shall submit the changes proposed in AL 2570-E to Preliminary Statement part DE., addressing the head room account, as a supplement to AL 2555-G/2521-E. The supplement to AL 2555-G/2521-E shall not be subject to protests.
5. No later than 14 days from today PG&E shall file an advice letter to establish an account to track the shortfall resulting from the restriction in Water Code Section 80110 on raising total rates for residential usage below 130% of

baseline. If PG&E chooses to track these amounts in an existing account, it shall establish a separate sub-account. Allocation of revenues recorded in this account will be determined by the Commission in A.04-06-024 or other proceeding designated by the Commission.

6. PG&E shall request amortization of future balances in the RARAM, DRAM, PPPRAM, NDAM, UGBA, PCCBA, RRBMA, HSM and the SRA by application.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on December 16, 2004; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

ID#4114
November 30, 2004
Resolution E-3906

Draft

Commission Meeting:

December 2, 2004

TO: PARTIES TO PACIFIC GAS AND ELECTRIC CO. ADVICE
LETTER (AL) 2570-E

Enclosed is draft Resolution E-3906 of the Energy Division. It will be on the agenda at the Commission's December 16, 2004 meeting. The Commission may then vote on the resolution or it may postpone a vote until later. Only when the Commission acts does the resolution become binding on the parties. Pursuant to Rule 77.7(g) of the Commission's Rules of Practice and Procedure, the comment period has been shortened.

Parties may comments on the draft Resolution.

An original and two copies of the comments, with a certificate of service, should be submitted to:

Jerry Royer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Fax: 415-703-2200
Email: jjr@cpuc.ca.gov

An electronic copy of comments should be submitted to:

Don Lafrenz at dlf@cpuc.ca.gov

Any comments on the draft Resolution must be received by the Energy Division by

December 9, 2004. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to the draft Resolution, 2) all Commissioners, and 3) the director of the Energy Division, on the same date that the comments are submitted to the Energy Division.

Draft Resolution E-3906

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PG&E AL 2570-E

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Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft Resolution, a table of authorities and an appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Late submitted comments not be considered.

Gurbux Kahlon
Program Manager
Energy Division

Enclosure: Service List
Certificate of Service

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of draft Resolution E-3906 on all parties in these filings or their attorneys as shown on the attached list.

Dated November 30, 2004 at San Francisco, California.

Jerry Royer

NOTICE

Parties should notify the Energy Division, Public Utilities
Commission, 505 Van Ness Avenue, Room 4002, San Francisco, CA
94102 of any change of address to insure that they continue to
receive documents. You must indicate the Resolution number on
the list on which your name appears.

Service List for E-3906

Brian Cherry, Director Regulatory Relations
Pacific Gas & Electric Co.
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